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DEPARTMENT OF AUDITOR-CONTROLLER**

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February 29, 2000

To: Supervisor Gloria Molina, Chair
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Alan Sasaki
Auditor-Controller

Subject: **FISCAL AUDIT OF FIVE ACRES - BOYS' AND GIRLS' AID SOCIETY
OF LOS ANGELES COUNTY - A FOSTER FAMILY AGENCY FOSTER
CARE CONTRACTOR**

Attached is our audit report on Five Acres – Boys' and Girls' Aid Society of Los Angeles County (Five Acres) fiscal operations for the period October 1, 1998 through September 30, 1999. Five Acres is licensed to operate a Foster Family Agency (FFA) and for the period of our review, had 36 certified homes with 56 children placed in those homes. Five Acres' administrative offices are located in the Fifth Supervisorial District.

The Department of Children and Family Services (DCFS) contracts with Five Acres to provide the basic needs and services for foster care children placed in the Agency's care. Under the provisions of the contract, DCFS pays Five Acres a monthly rate per child, based on age criteria established by the California Department of Social Services (CDSS). Five Acres receives between \$1,362 and \$1,607 per month per child, and during the period of our review, received approximately \$1,000,000 in foster care payments from DCFS.

Scope

The purpose of our review was to ensure that Five Acres has complied with the contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of Five Acres' accounting records, internal controls, and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of FFA foster care funds.

Summary of Findings

Our review disclosed that DCFS and Five Acres do not adequately monitor and resolve foster fund payment discrepancies. As of October 1, 1999, Five Acres owed DCFS \$23,551 for overpayments dating back to January 1997. We also noted a \$3,232 unresolved underpayment from February 1999. DCFS and Five Acres need to resolve any outstanding over/underpayments and ensure future payment discrepancies are resolved timely.

We also noted areas where Five Acres needs to strengthen internal controls over payroll expenditures, allocation of expenses, and bank reconciliations and deposits.

Review of Report

We discussed our report with Five Acres management on February 16, 2000. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report.

We thank Five Acres management and staff for their cooperation during our review.

ATS:PTM:MR

Attachment

c: **Chief Administrative Office**

David E. Janssen, Chief Administrative Officer
Public Information Office

Audit Committee Members

Department of Children and Family Services

Anita Bock, Director
Beverly Muench, Senior Deputy Director
Amaryllis Watkins, Acting Deputy Director, Bureau of Resources
Genevra Gilden, Chief, Quality Assurance Division

Five Acres – Foster Family Agency

Robert A. Ketch, Executive Director
Board of Directors
Commission for Children and Families

Five Acres – The Boys’ and Girls’ Aid Society of Los Angeles County
Fiscal Audit of Foster Family Agency Contract

Schedule of Findings

Background

The Department of Children and Family Services (DCFS) contracts with Five Acres to provide the basic needs and services for foster care children placed in the Agency’s care. Five Acres is licensed to operate a Foster Family Agency (FFA), and as of our review, had 36 certified homes with 56 children placed in those homes. Five Acres’ administrative offices are located in the Fifth Supervisorial District.

Under the provisions of the contract, the County pays Five Acres a monthly rate for each child, based on rate classification levels determined by the California Department of Social Services. Five Acres received a monthly rate between \$1,362 and \$1,607 per child based on age of placement, and during the period of our review, October 1, 1998 through September 30, 1999, received approximately \$1,000,000 in foster care funds from DCFS.

Applicable Regulations and Guidelines

Five Acres is required to operate its FFA in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- FFA Contract, including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations.
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP).
- California Code of Regulations, Title 22 (Title 22).

Unresolved Payment Discrepancies

Our review disclosed that DCFS and Five Acres do not adequately monitor and resolve foster fund payment discrepancies. Our review of the Agency’s accounting records disclosed the following, as of October 1, 1999:

- The Agency owed DCFS \$23,551 for overpayments. These overpayments date back to January 1997, including an outstanding overpayment of \$2,295 from April 1997.
- The Agency had not notified DCFS of a \$3,232 underpayment that occurred in February 1999 (over seven months outstanding).

Section 12 (A) of the Foster Family Agency Contract states that when any overpayment is identified, the County shall demand repayment of any amount not recovered by payment adjustment or otherwise repaid. In addition, the Agency should notify DCFS immediately upon receiving an over/underpayment via a Payment Resolution Form to ensure prompt resolution of payment discrepancies.

Recommendations

DCFS management:

1. **Work with Five Acres management to resolve all outstanding foster care payment discrepancies.**
2. **Monitor payments to foster care agencies more closely to ensure correct amounts are paid and any over/underpayments are resolved immediately.**

Five Acres management:

3. **Ensure all foster care over/underpayments are reported to DCFS and resolved in a timely manner.**

Contract Compliance and Internal Controls

Our audit disclosed the following contract compliance issues and internal control weaknesses that require corrective action by Five Acres.

Salary Costs

Per the Circular, charges to awards for salaries and wages will be based on documented payrolls approved by a responsible official of the organization. Distribution of salaries and wages to awards must be supported by personnel activity reports (i.e., timecards). These reports must include the hours worked and must be signed by the employee and his/her supervisor.

During our review period, one social worker submitted only four of 17 timecards but received payments for all 17 pay periods. The 13 unsupported payments totaled \$19,825.04. The employee completed and submitted the 13 timecards after we notified Five Acres of the discrepancy. Timecards must be completed and approved timely to ensure payroll expenditures reflect actual hours worked.

Recommendation

- 4. Five Acres management ensure that all employee timecards are received and approved before paychecks are issued.**

Non-Compliance with Federal and State Payroll Tax Laws

Per the Contract, the Agency shall comply with all applicable federal, State and County statutes, ordinances, and regulations, including those related to the reporting of income to the appropriate federal and State taxing agencies.

During our review, we noted that a full-time employee was inappropriately compensated \$250 through the general operating account rather than through the Agency’s third party payroll administrator. As a result, there were no federal or State payroll taxes withheld. All wages paid to Agency employees should be paid through the Agency’s normal payroll process with appropriate federal and State taxes withheld.

Recommendation

- 5. Five Acres management ensure all salaries and wages are processed through payroll and all appropriate payroll taxes are withheld.**

Allocation of Expenses

Per the A-C Handbook, Section 2.0, Agencies shall allocate expenditures that benefit various programs or funding sources on an equitable basis. Those costs in which the relative benefit to each program can be readily identified may be directly allocated using measurable, quantified units (i.e., time records of actual hours worked by program, number of employees, units of services, square footage, etc.). In addition, allocation methods should be reviewed periodically and adjusted to reflect more closely actual costs.

Our review disclosed that Five Acres does not allocate building expenses equitably at their Fair Oaks site. The Agency administers four programs at their Fair Oaks offices: Foster Family, Deaf Services, Home Base, and Family Preservation. Building expenses, including rent, utilities and maintenance, are allocated based on the number of programs in the building (25% per program). This appears inappropriate since the Foster Family program occupies 52% (2,345 of 4511 square feet) of the building’s area. Five Acres management needs to ensure allocation methods used to determine indirect costs reflect each program’s expenditures on an equitable basis.

Five Acres also maintains a separate cost pool for indirect costs incurred at their Alta Dena offices. The expenditures for this cost pool are allocated monthly based on each program's relative salary budget developed at the beginning of each fiscal year. Agency management does not review and adjust the allocation rates during the year to reflect actual salaries paid. Therefore, if staffing levels change during the year, the amount of indirect costs allocated to each program may not be accurate. Agency management needs to review and adjust allocation rates periodically to reflect more closely actual costs.

Recommendations

Five Acres management:

- 7. Use allocation methods that reflect each program's costs on an equitable basis.**
- 8. Review and adjust allocation rates periodically to reflect more closely actual costs.**

Bank Reconciliations

Section 4.011 of the A-C Handbook states that bank statements shall be reconciled monthly and reviewed by supervisory personnel for appropriateness and accuracy. In addition, unclaimed or undelivered checks identified shall be cancelled periodically.

Our review disclosed the following:

- Bank reconciliations are not prepared timely. As of November 15, 1999, the Agency had not completed bank reconciliations for the July, August and September 1999 bank statements. Also, since reconciliations are not signed and dated we could not determine the timeliness of those that were already prepared at the time of our review.
- Five Acres management does not review and approve bank reconciliations. None of the reconciliations we reviewed indicated management approval.
- As of November 15, 1999 we noted 17 checks totaling over \$4,700 that were up to 15 months outstanding (dating back to July 1998).

Recommendations:

Five Acres management:

9. Ensure bank reconciliations are prepared monthly and reviewed and approved by management. All reconciliations should be dated and signed by the preparer and approver.
10. Ensure outstanding checks are cancelled timely.

Bank Deposits

Our review disclosed that the Agency does not have a formal policy dictating the frequency of bank deposits. Per management, deposits are usually made weekly or when large collections are accumulated. To ensure adequate security over foster family funds, the Agency should make deposits daily or when collection amounts reach \$100, in accordance with the County Fiscal Manual. In no case should deposits be less frequent than weekly.

Recommendation

11. Five Acres management ensure bank deposits are made daily or when collection amounts reach \$100.